

HINDUSTAN UNILEVER



Correction overdone; aggressive stance is the right way to go

Higher ad spending to prop up volumes and market share

Hindustan Unilever's (HUL) first level of aggression was to increase ad spends from 12.5% in Q1FY10 to 13.5% of sales in Q2FY10. Ad spend in Q3FY10 increased further 60bps Q-o-Q to 14.1% of sales. The company is also trying to improve product/mix with superior high growth margin products (through new product launches, rebranding, etc.) and we believe HUL will be able to deliver volume growth and market share gain through this strategy.

Aggressive stance is the right way to go

HUL's second level of aggression was to cut prices sharply in the soaps and detergents category. In this high inflationary environment, regional players will be under cost pressure as they do not have HUL's international sourcing acumen and scale. In the Q3FY10 conference call, the company insisted that "competitive growth is the No. 1 priority" and we believe the company's price cut in *Rin* (~2% of sales) and other segments will help it record higher volume growth.

Higher volumes is trigger; profit growth to remain muted in near term

Higher volume growth and likely increase in market share should be the trigger in the near term. However, due to price cuts and higher ad spending (on back of product innovation), profit is likely to be muted in the near term.

Favourable base for three quarters going forward

As expected by us, HUL delivered 5% volume growth in Q3FY10. The company's volumes had declined in Q4FY09 (-4.2%), were at 2% in Q1FY10, and 1% in Q2FY10, and this should provide a favorable base in the coming three quarters.

Outlook and valuations: Recent correction overdone; maintain 'BUY'

The company is investing heavily in its brands, realigning its sales and distribution strategies, and we believe it will start regaining market share, a trend which has already begun in Q3FY10. HUL has underperformed the Sensex and BSE-FMCG Index in the past six months by 22% and 19%, respectively. Recent correction has been overdone and we believe these levels provide a good entry for investors looking for defensive names and a likely turnaround in fortunes. At CMP of INR 237, the stock is trading at P/E of 20.9x and 18.3x of FY11E and FY12E, respectively. We maintain **'BUY'** recommendation. On relative return basis, the stock is rated **'Sector Performer'**.

Financials

Year to March	CY07	FY09*	FY10E	FY11E
Revenues (INR mn)	136,754	203,525	177,596	196,392
Rev. growth (%)	13.0	48.8	(12.7)	10.6
EBITDA (INR mn)	18,787	27,912	22,032	26,469
Net profit (INR mn)	19,255	26,097	21,194	24,691
Shares outstanding (mn)	2,177	2,180	2,180	2,180
Diluted EPS (INR)	8.0	11.8	9.7	11.3
EPS growth (%)	14.6	47.2	(17.4)	16.5
Diluted P/E (x)	29.6	20.1	24.3	20.9
EV/EBITDA (x)	26.6	17.9	22.3	18.4
ROAE (%)	83.7	146.6	94.8	94.5

* Change in Accounting year from December to March. Hence FY09 is for 15 months period.

February 3, 2010

Reuters : HLL.BO Bloomberg : HUVR IN

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Low
Sector Relative to Market	Underweight

Note:
Please refer last page of the report for rating explanation

MARKET DATA

CMP	:	INR 237
52-week range (INR)	:	306 / 210
Share in issue (mn)	:	2,181.4
M cap (INR bn/USD mn)	:	516 / 11,206
Avg. Daily Vol. BSE ('000)	:	4,024.7

SHARE HOLDING PATTERN (%)

Promoters*	:	52.0
MFs, FIs & Banks	:	13.9
FIIIs	:	15.0
Others	:	19.1
* Promoters pledged shares (% of share in issue)	:	Nil

PRICE PERFORMANCE (%)

	Stock	Nifty	EW FMCG Index
1 month	(10.7)	(5.2)	(1.1)
3 months	(12.5)	8.1	1.1
12 months	(8.8)	77.2	38.3

Abneesh Roy
+91-22-6620 3141
abneesh.roy@edelcap.com

Nitin Mathur
+91-22-6620 3073
praful.kumar@edelcap.com

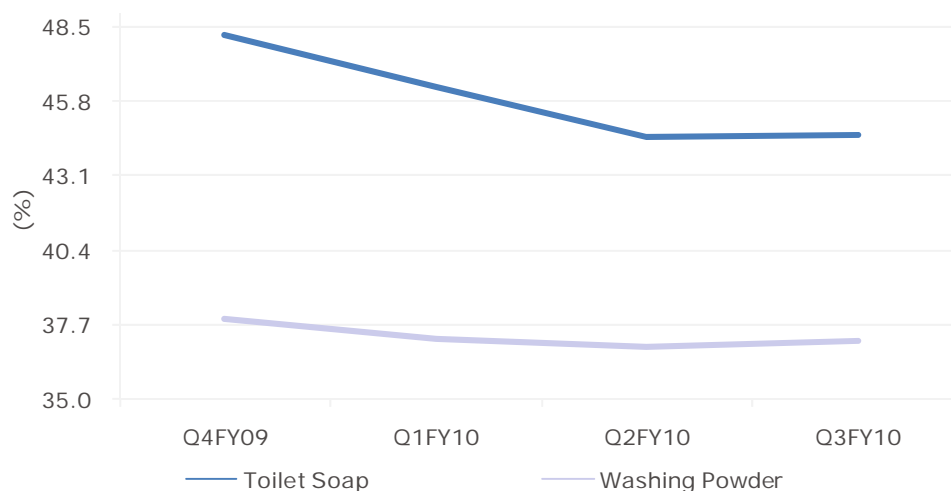
■ **Analysing the key concerns of investors**

Price cut, high Ad spending, new product development, input cost, and food inflation are some of the concerns acting as an overhang for the company. We investigate some of these issues a little deeper in this note.

• **Price cut**

HUL's global management has emphasized the importance of a "strong foothold in our own backyard" and the recent price cuts indicate the company's strong commitment to continue as market leader in the soaps and detergents segment, while maintaining profitability. As a reminder, the company still holds 45% market share in toilet soaps and 37% in washing powder as per industry data.

Chart 1: Market share data in soaps and washing powder stabilizing

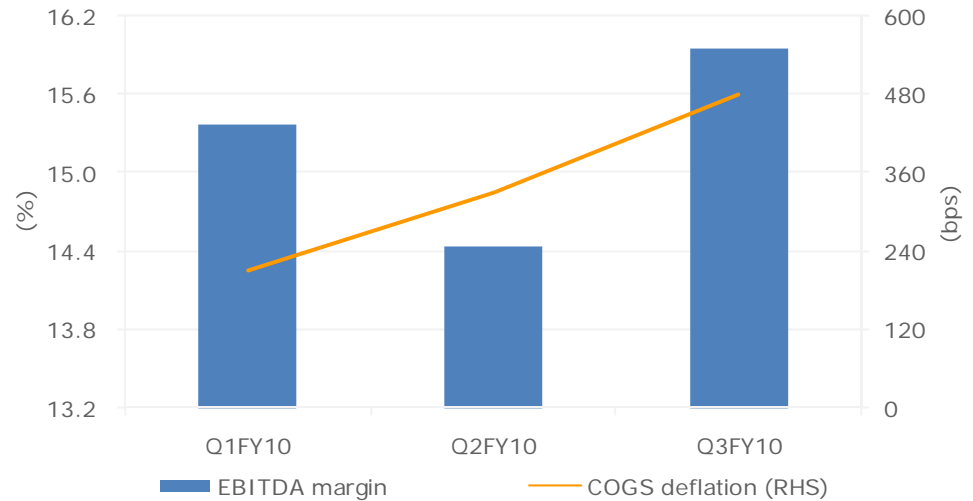


Source: Industry, Edelweiss research

After several quarters, HUL has been successful in arresting the loss of market share in Q3FY10. Its strategy to rejuvenate brands seems to be paying off as market share in soaps increased 10bps, while volume share in laundry and bars increased 100bps and 60bps, respectively Q-o-Q.

HUL is still seeing deflation in major commodity costs because of forward cover in key commodities. LAB is one of the key inputs in soaps and detergents and constitutes ~40% of the raw material cost for this division. The company has benefitted from overall input cost deflation, recording 210bps, 330bps, and 480bps COGS deflation in Q1FY10, Q2FY10, and Q3FY10, respectively. Rin largely constitutes ~2% of sales and the recently announced price cut of around 30% should have minimal impact.

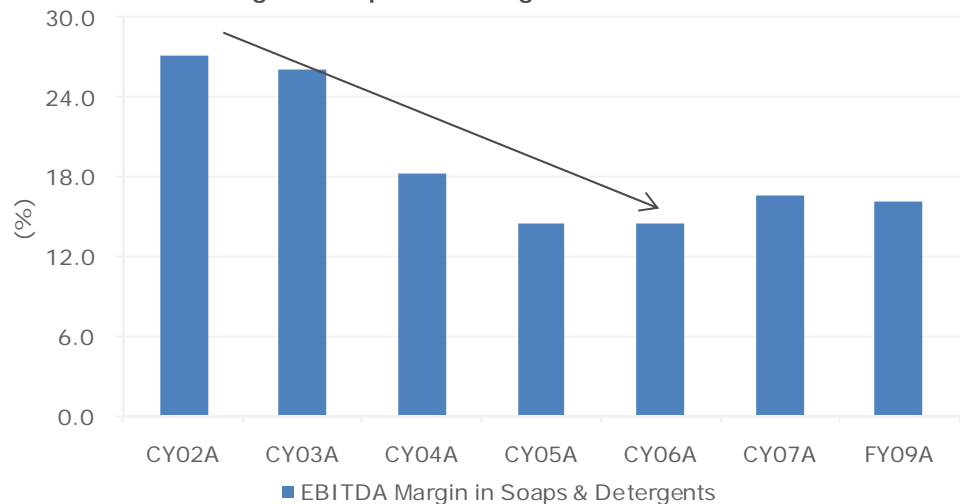
Chart 2: COGS contribution to EBITDA margin improved in past three quarters



Source: Industry, Edelweiss research

Although we expect some more price cuts, we do not expect the price war in soaps and detergents this time to be as severe as it was in 2004. Margins have dipped significantly in the past few years from mid-20s to lower teens, making the business less attractive for both regional and global players. This also limits the bandwidth of various players from taking aggressive price cuts.

Chart 3: EBITDA margin in soaps and detergents



Source: Industry, Edelweiss research

- **High investment in ASP**

Several competitors increased ASP (as % of sales) spending mid-teens in Q2FY10 and in Q3FY10 conference call HUL insisted that it did not want to stay behind the curve. HUL is the biggest FMCG player and has the scale to absorb increased ASP costs. Moreover, increasing brand awareness for new and existing products improves brand equity in the longer run and we believe this is the right strategy at this point of time. This should also enable the company to focus on other high margin business such as personal products.

- **Focus on product innovation/ relaunches/ development of new markets**

Successful relaunch of *Lux* helped volume growth in the soaps segment and market share seems to be stabilising now. *Fair & Lovely* winter fairness cream was relaunched and the company is seeing good growth. In the hair & oil category, *Dove* and *Clinic Plus* grew strongly and *the former* is now the No. 1 brand in modern retail. *Sunsilk* was relaunched in November 2009 and growth momentum continues in this category as well. Launch of *Cif* continues to see good momentum.

Brooke Bond Sehatmand was launched to attract down trading customers. The tea also projects additional health benefits and should lead to filling up of the void in the discount tea segment. *Knorr soup* is registering good growth post relaunch. In the ice cream category, HUL launched the *Litchi Zap* and 85 swirl parlours are in operation now, recording good growth in the segment. Moreover, there were recent media reports that noodles will be launched soon.

Overall, we remain convinced that increased ASP spending is leading to the desired results and the company is focusing on higher margin products, which should be growth drivers in the near term.

- **Input cost**

Food, beverages, and ice cream contribute ~ 17% to HUL's revenue and the impact is reduced because of forward cover in key commodities. HUL benefits from Unilever's global scale and acumen and in the Q3FY10 conference call, the company reconfirmed that it has sufficient cover for input costs. Hence, we do not see input cost as a major challenge to the company.

- **High food inflation**

Food inflation was 17.56% for the week ending January 23. Apart from sugar, pulses and edible oils have added to the strong headline food inflation number. However, as rabi crop is coming close to harvesting stage, we should see some easing off of these prices. Already, prices of soybean, rape seed and chana have been falling steadily, while tur and urad (primarily kharif crops) are also seeing some decline. Chana prices fell by almost INR 700 (25%) per quintal since the beginning of December 2009 because of supply overhang, government restrictions, and increase in acreage. Soybean prices decline, however, was led by global oversupply situation. The coming off of food inflation is positive for FMCG consumption as the slight slowdown and downtrading in some categories will likely reverse.

- **Premiumisation of consumers**

Rising income levels and economic recovery have improved consumer sentiment and led to revival in consumer demand, both urban and rural. Premiumisation trend is noticed by several companies under our coverage and we present some anecdotal evidence of it from recent Q3FY10 conference calls.

- **United Breweries Group update in January 2010**

On domestic aviation industry: *Passenger traffic for the aviation industry increased in Q3FY10 (+30.5% over Q3 last year). This buoyancy in passenger volumes is expected to continue as the Indian economy rebounds from the slowdown of early 2009. Premium traffic has made a comeback with a sharp increase in loads on key sectors."*

On domestic alcohol market: *"No evidence of "trading down". In fact, consumers are "trading up" to premium products due to increased spending power and growth in young drinkers."*

- **Shoppers Stop in January 2010**

"The Indian consumer is more confident now and it's clearly reflected in their shopping behavior."

- **Pantaloon Retail in January 2010**

"Rising incomes, higher working youth population, faster rate of urbanisation, will lead to the change in the nature and composition of PFCE in the new decade. It will move towards value added products, thus giving rise to new consumption categories."

In fact, HUL is focused on market development as well as uptrading consumers in certain categories. New product launches (in ice cream and foods) as well as the recent price cut in *Rin* are possible opportunities to upgrade customers to mid-segment from lower price points. *Dove* grew rapidly across shampoo and conditioners, becoming the No.1 hair care brand in modern trade while *Dove* sachet has captured ~5% of the market. In skin care, Pond's White Beauty and Fair & Lovely's 'winter fairness' cream has received good response from the market. Clearly, HUL is benefitting from the 'premiumisation trend' of Indian consumers.

- **Growth and the price for it**

Though not an exact like-for-like comparison, we look at HUL's ASP spending, margins generated, and the valuation and compare it to global companies like L'Oreal and Reckitt Benckiser. While HUL's ASP spending is slightly below Reckitt's, it is significantly below what L'Oreal spends to build its brand equity. On margin basis, Reckitt is able to operate on a much higher level than both HUL and L'Oreal. But on a valuation basis, Reckitt is not able to command the premium enjoyed by both HUL and L'Oreal.

We attribute the valuation premium to HUL's entry into new product development, complete range of portfolio from food to personal care, good brand equity and high growth prospects of the Indian economy.

Chart 4: A&P spend and 1 year forward P/E

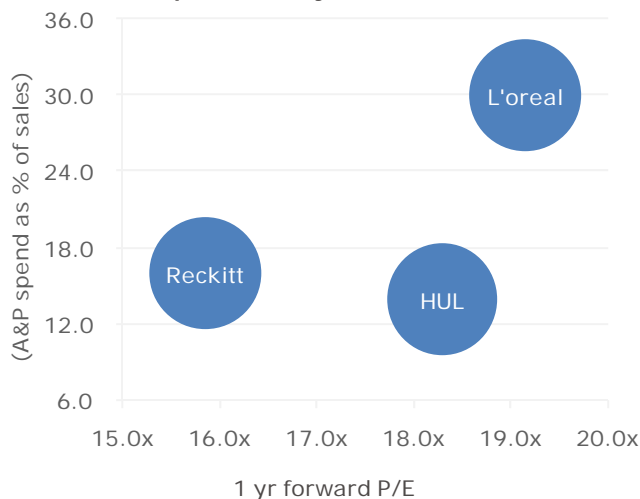
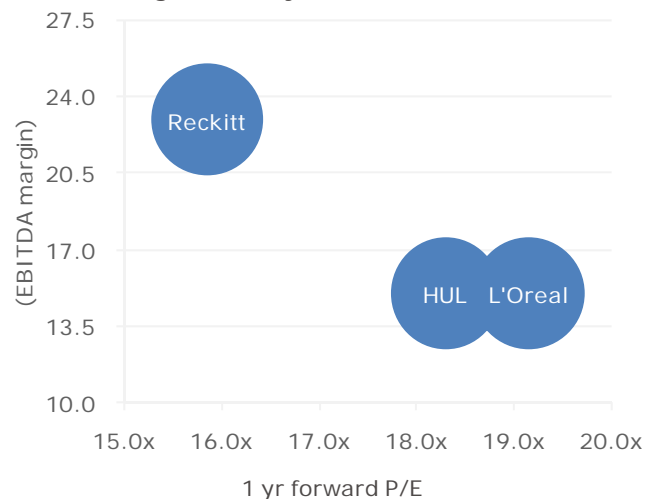


Chart 5: Margins and 1 year forward P/E



Source: Industry, Edelweiss research

- **Recent HUL performance**

HUL has underperformed the Sensex and BSE–FMCG Index in the past six months by 22% and 19%, respectively. Recent correction has been overdone and we believe these levels provide a good entry for investors looking for defensive names and a likely turnaround in fortunes.

Table 1: Performance table

	Perf. (% abs.)		HUL's Perf. (% rel)	
	-3m	-6m	-3m	-6m
HUL	(12.4)	(18.4)	-	-
BSE - Sensex	3.7	3.6	(16.1)	(22.0)
BSE - FMCG	(1.6)	0.8	(10.8)	(19.2)

Source: Industry, Edelweiss research

- **3QFY10 results: Key takeaways from conference call**

Volume growth has come back for HUL in Q3FY10: HUL has grown at a higher rate/in line than the overall market in almost all categories in Q3FY10 in terms of volumes. Its volume growth accelerated to 5% in Q3FY10 and made a good pullback from the 1% growth seen in Q2FY10 due to innovations, massive brand support, and continued focus on market execution.

Recent price cut in Rin/ price war in laundry: Currently, the price cut in *Rin* is just a price promotion/offer over the near term. This will be evaluated again. HUL took a 30% price cut in *Rin* washing powder (to INR 50 from INR 70). Price cuts could also lead to uptrading to mid segment from lower price points. Growing India opportunity means competition will increase. However, HUL remains focused on leadership. It remains confident of growth over medium and long term. Impact on HUL, if any, depends on cost scenario, competitive intensity.

Market share improvement is the key objective over near term: HUL will focus on competitive growth over near term. However, profitable growth remains the key objective over the medium and long term. There is a change in strategy from a competitive and profitable growth to competitive growth over the near term. HUL is focused on speed to market and determined to grow ahead of the market.

New products/ innovations which have done well: Fabric conditioner, hair conditioner, OOH consumption of ice creams, water, premium skin lightening.

Raw material costs: HUL has forward cover for key commodities and keeps reviewing the time lines. The company will relentlessly drive down costs.

Ad spends: The level of ad spends will depend on competitive intensity and product innovations. Launches and relaunches will keep happening. However, over the near term, ad spends are likely to remain high. Ad spends are unlikely to go back to 10% of sales.

Value growth: Value growth has come down and should be seen in context of down trading in tea and detergents and price cuts in soaps.

Down trading in tea and detergents: HUL has introduced a new variant in low end of tea which is competitively priced with respect to regional players. The new brand is *Brooke Bond Sehatmand* and has been introduced in UP, Bihar, and MP. Penetration is high in these two segments which partly explains the down trading. Prices of tea as a commodity have shot up so uptrading decreased from packets to loose consumption.

Royalty expenses: This is applicable only to Unilever brands. Benefits for HUL will far outweigh the higher royalty costs. Launching of *Dove*, *Axe*, *Knorr*, *Ponds premium* are some of the recent successful launches due to support from the parent, Unilever. The impact is likely to be ~60-70bps of sales.

FMCG market: Market has grown slower due to price cuts and slower volume growth in some segments (due to food inflation). HUL is confident of FMCG industry growth and believes market can accommodate new players.

Competitive intensity: Intensity is increasing across the board. HUL will focus on market development and will maintain leadership position.

BTL spends: Promotions have come down as a % of sales Q-o-Q and Y-o-Y.

Financial snapshot

(INR mn)

Year to March	Q3FY10	Q4FY09	% change	Q2FY10	% change	FY09*	FY10E	FY11E
Domestic FMCG - HPC	33,891	32,688	3.7	31,643	7.1	150,276	130,520	144,649
Domestic FMCG - Foods	7,685	7,060	8.8	7,355	4.5	32,930	31,144	35,090
Exports	2,636	2,650	(0.5)	2,263	16.5	16,566	15,757	16,477
Others	831	679	22.4	1,019	(18.5)	5,239	176	176
Net sales	45,043	43,077	4.6	42,281	6.5	205,011	177,596	196,392
Increase/(Decrease) in stock in trade	(249)	1,168	(121.3)	41	(709.3)	(4,292)	1,689	(2,378)
Consumption of raw and packing materials	16,337	16,899	(3.3)	16,540	(1.2)	86,415	65,721	77,272
Purchase of goods	6,023	5,135	17.3	4,931	22.1	27,357	24,508	29,459
Cost of goods sold	22,111	23,201	(4.7)	21,512	2.8	109,480	91,918	104,352
Gross profit	22,932	19,877	15.4	20,770	10.4	95,531	85,678	92,039
Staff cost	2,120	2,209	(4.0)	2,358	(10.1)	11,964	10,012	10,974
Advertising & promotions	6,329	3,803	66.4	5,709	10.9	21,739	23,976	21,701
Other expenditure	7,298	6,934	5.2	6,594	10.7	34,800	29,659	32,896
Total expenditure	15,747	12,946	21.6	14,661	7.4	68,502	63,646	65,570
EBITDA	7,185	6,931	3.7	6,108	17.6	27,029	22,032	26,469
Depreciation/Amortisation	450	406	10.9	462	(2.7)	2,000	1,771	1,916
EBIT	6,735	6,525	3.2	5,646	19.3	25,029	20,261	24,552
Other income-operational	690	710	(2.8)	884	(22.0)	3,685	3,055	3,360
EBIT including other income	7,425	7,235	2.6	6,530	13.7	28,714	23,316	27,913
Net interest (incl. financial other income)	387	292	32.7	(15)	(2,714.2)	1,632	4,031	4,153
Exceptionals	445	(385)	NM	0	NM	(77)	0	1
PBT	8,257	7,141	15.6	6,515	26.7	30,269	27,347	32,066
Provision for taxation	1,766	896	97.1	878	101.1	5,179	6,153	7,375
PAT before extraordinary items	6,491	6,246	3.9	5,637	15.1	25,089	21,194	24,691
Extraordinary items (net of tax)	0	(88)	NM	(1,352)	NM	64	0	0
Net profit	6,491	6,157	5.4	4,285	51.5	25,154	21,194	24,691
Equity capital (FV INR 1)	2,180	2,180		2,180		2,180	2,180	2,180
No. of shares (mn)	2,180	2,180		2,180		2,180	2,180	2,180
EPS (INR) (Excl. exceptionals)	3.0	2.9		2.6		11.8	9.7	11.3

as % of net sales

COGS	49.1	53.9		50.9	(1.79)	53.4	51.8	53.1
Staff costs	4.7	5.1		5.6	(0.87)	5.8	5.6	5.6
Advertising & sales	14.1	8.8		13.5	0.55	10.6	13.5	11.1
Other expenditure	16.2	16.1		15.6	0.61	17.0	16.7	16.8
EBITDA	16.0	16.1		14.4	1.51	13.2	12.4	13.5
EBIT	15.0	15.1		13.4		12.2	11.4	12.5
EBIT incl. other income	16.5	16.8		15.4		14.0	13.1	14.2
PBT	18.3	16.6		15.4		14.8	15.4	16.3
Net profit	14.4	14.3		10.1		12.3	11.9	12.6
Tax rate	21.4	12.5		13.5		17.1	22.5	23.0

* Change in Accounting year from December end to March end. Figures are for 15 months.

■ Company Description

HUL, the largest FMCG Company in India, was formed by merging three subsidiaries of Unilever in 1956. At present, Unilever Plc holds a 52.1% stake in the company. HUL's portfolio of products covers a wide spectrum including soaps, detergents, skin creams, shampoos, toothpastes, tea, coffee, and branded atta. In FY09 (15 month period), HUL generated net sales of INR 205 bn and a profit of INR 25.4 bn.

Powerful brands and an enviable distribution network are HUL's primary strengths. The company operates through five segments—soaps & detergents, personal products, beverages, foods, and ice creams—exports, and other operations. While soaps & detergents contributes 45% of net sales, the high margin personal products segment contributes the most to operating profit at 45%. Together personal products and soaps & detergents which constitute the home and personal care (HPC) division contribute 71% of net sales and 82% of operating profit.

■ Investment Theme

HUL is a play on consumption growth in India. The company has displayed its ability to effect price hikes and avoid impact of inflation in vegetable oils, which, combined with improved outlook for fabric wash and strong growth in processed foods and beverages, boosts our positive outlook on the stock. The recent moves by the company to dispose of its non core assets including few properties give it a near term upside. We believe the price war in the detergent segment with rival P&G has ended and this is likely to add to the profitability from the segment going forward.

■ Key Risks

A rise in crude oil prices can result in biodiesel demand resurfacing, which in turn could lead to increase in vegetable oil price inflation; in turn deteriorating the company's operating margins.

The price war in HUL's popular segments with new entrants entering the fray could hit the company hard.

Further risks arise from down trending by consumers in response to recent price hikes, which could hurt the company's top line.

A substantial part HUL's turnover is derived from the rural market. Deficient rainfall could impact agricultural activity which in turn could hit rural demand.

Financial Statements

Income statement					(INR mn)
Year to March	CY07	FY09	FY10E	FY11E	FY12E
Gross revenues	147,151	217,627	190,964	211,174	236,649
Excise duties	10,397	14,102	13,367	14,782	16,565
Net revenues	136,754	203,525	177,596	196,392	220,084
Cost of Materials	72,685	108,379	91,918	104,352	115,508
Gross profit	64,069	95,146	85,678	92,039	104,576
Employee costs	7,678	11,521	10,012	10,974	12,297
Advertisement & sales costs	14,402	21,309	23,976	21,701	24,319
Other general expenditure	23,202	34,404	29,659	32,896	36,864
EBITDA	18,787	27,912	22,032	26,469	31,095
Depreciation	1,384	1,953	1,771	1,916	2,057
EBIT	17,403	25,959	20,261	24,552	29,037
Other income	4,315	5,678	7,288	7,716	7,716
EBIT incl. other income	21,718	31,637	27,549	32,268	36,753
Net interest	255	253	202	202	202
PBT	21,463	31,383	27,347	32,066	36,551
Provision for taxation	4,049	5,729	6,153	7,375	8,407
Core PAT	17,414	25,654	21,194	24,691	28,144
Extraordinary items	1,824	(43)	0	0	0
Prior period items	17	485	0	0	0
Profit after tax	19,255	26,097	21,194	24,691	28,144
Profit after tax after Minority Interest	19,255	26,097	21,194	24,691	28,144
Equity shares outstanding (mn)	2,177	2,180	2,180	2,180	2,180
EPS (INR) basic	8.0	11.8	9.7	11.3	12.9
Diluted shares (mn)	2,177	2,180	2,180	2,180	2,180
EPS (INR) fully diluted	8.0	11.8	9.7	11.3	12.9
CEPS (INR)	8.8	12.7	10.5	12.2	13.9
DPS	9.1	7.5	6.9	8.1	8.1
Dividend payout ratio (%)	133.9	74.5	83.6	83.6	73.3

Common size metrics

Year to March	CY07	FY09	FY10E	FY11E	FY12E
Cost of materials	53.2	53.3	51.8	53.1	52.5
Employee costs	5.6	5.7	5.6	5.6	5.6
Advertising & sales costs	10.5	10.5	13.5	11.1	11.1
Other general expenditure	17.0	16.9	16.7	16.8	16.8
Depreciation	1.0	1.0	1.0	1.0	0.9
Net interest expenditure	0.2	0.1	0.1	0.1	0.1
EBITDA margin	13.7	13.7	12.4	13.5	14.1
EBIT margin	12.7	12.8	11.4	12.5	13.2
Net profit margin	12.7	12.6	11.9	12.6	12.8

Growth metrics

Year to March	CY07	FY09	FY10E	FY11E	FY12E
Revenues	13.0	48.8	(12.7)	10.6	12.1
EBITDA	14.0	48.6	(21.1)	20.1	17.5
PBT	15.3	46.2	(12.9)	17.3	14.0
Net profit	13.1	47.3	(17.4)	16.5	14.0
EPS	14.6	47.2	(17.4)	16.5	14.0

* Change in Accounting year from December end to March end. Figures are for 15 months. ↗ for 15 months.

Balance sheet**(INR mn)**

As on 31st March	CY07	FY09	FY10E	FY11E	FY12E
Share capital	2,177	2,180	2,180	2,180	2,180
Reserves	12,215	18,435	21,915	25,969	33,477
Shareholders' funds	14,392	20,615	24,095	28,149	35,656
Secured loans	874	1,684	1,684	1,684	1,684
Unsecured loans	12	2,536	2,536	2,536	3
Borrowings	885	4,219	4,219	4,219	1,687
Sources of funds	15,278	24,835	28,314	32,368	37,344
Gross block	26,691	28,817	31,519	34,283	37,059
Less depreciation	11,466	12,750	14,443	16,336	18,383
Net fixed assets	15,225	16,068	17,076	17,947	18,676
Capital work in progress	1,856	4,721	4,721	4,721	4,721
Investments	14,408	3,326	3,326	3,326	3,326
Deferred tax (net)	2,124	2,124	2,124	2,124	2,124
<i>Current assets</i>	32,774	56,434	59,904	69,314	78,004
Inventories	19,536	25,289	22,397	25,648	28,531
Sundry debtors	4,434	5,369	5,679	6,280	7,038
Cash and bank balance	2,009	18,198	24,249	29,808	34,856
Other current assets	124	157	157	157	157
Loans and advances	6,672	7,421	7,421	7,421	7,421
Current liabilities	51,110	57,838	58,837	65,064	69,507
Liabilities	38,371	42,558	43,557	49,784	54,227
Provisions	12,739	15,280	15,280	15,280	15,280
Working capital	(18,336)	(1,404)	1,067	4,250	8,496
Uses of funds	15,278	24,835	28,314	32,368	37,344
BV (INR)	7	9	11	13	16

Cash flow statement

Year to March	CY07	FY09	FY10E	FY11E	FY12E
Net profit	19,255	26,097	21,194	24,691	28,144
Depreciation	1,384	1,953	1,771	1,916	2,057
Deferred tax	389	0	-	-	-
Others	(5,450)	(5,758)	0	-	(539)
Gross cash flow	15,577	22,292	22,965	26,607	29,663
Less: Changes in WC	(2,641)	742	(3,580)	(2,375)	(803)
Operating cash flow	18,218	21,550	26,545	28,983	30,465
Less: Capex	2,601	2,796	2,779	2,787	2,787
Free cash flow	15,617	18,754	23,766	26,196	27,679

Cash flow metric

Year to March	CY07	FY09	FY10E	FY11E	FY12E
Operating cash flow	18,218	21,550	26,545	28,983	30,465
Financing cash flow	(30,632)	(14,567)	(21,409)	(24,453)	(26,986)
Investing cash flow	10,238	8,782	915	1,029	1,030
Net cash flow	(2,176)	15,765	6,051	5,559	4,510
Capex	(2,601)	(2,796)	(2,779)	(2,787)	(2,787)
Dividends paid	(19,545)	(14,360)	(15,141)	(17,639)	(17,639)
Share issuance / (buyback)	(6,315)	381	-	-	-

* Change in Accounting year from December end to March end. Figures are for 15 months. ↗ for 15 months.

Ratios

Year to March	CY07	FY09	FY10E	FY11E	FY12E
ROAE	83.7	146.6	94.8	94.5	88.2
Debtor days	12	9	11	11	11
Inventory days	88	75	95	84	86
Payable days	242	183	232	217	213
Current ratio	0.6	1.0	1.0	1.1	1.1
Cash conversion cycle days	(142)	(99)	(126)	(122)	(116)
Debt/Equity	0.1	0.2	0.2	0.1	0.0
Adjusted debt/equity	0.1	0.2	0.2	0.1	0.0
Interest coverage (x)	68.3	102.5	100.3	121.5	143.7

Operating ratios

Year to March	CY07	FY09	FY10E	FY11E	FY12E
Total asset turnover	6.3	10.1	6.7	6.5	6.3
Fixed asset turnover	9.4	13.0	10.7	11.2	12.0
Equity turnover	6.6	11.6	7.9	7.5	6.9

Du pont analysis

Year to March	CY07	FY09	FY10E	FY11E	FY12E
NP margin (%)	12.7	12.6	11.9	12.6	12.8
Total assets turnover	6.3	10.1	6.7	6.5	6.3
Leverage multiplier	1.0	1.1	1.2	1.2	1.1
ROAE (%)	83.7	146.6	94.8	94.5	88.2

Valuation parameters

Year to March	CY07	FY09	FY10E	FY11E	FY12E
Diluted EPS (INR)	8.0	11.8	9.7	11.3	12.9
Y-o-Y growth (%)	14.6	47.2	(17.4)	16.5	14.0
CEPS (INR)	8.8	12.7	10.5	12.2	13.9
Diluted P/E (x)	29.6	20.1	24.3	20.9	18.3
Price/BV (x)	35.8	25.0	21.4	18.3	14.5
EV/Sales (x)	3.7	2.4	2.8	2.5	2.2
EV/EBITDA (x)	26.6	17.9	22.3	18.4	15.4
Dividend yield (%)	3.8	3.2	2.9	3.4	3.4

* Change in Accounting year from December end to March end. Figures are for 15 months. ↗ for 15 months.

Company	Absolute reco	Relative reco	Relative risk
Hindustan Unilever	Buy	SP	L
ITC	Buy	SO	L
Marico	Buy	SO	M
Godrej Consumer Products	Buy	SO	H
Nestle India	Hold	SU	L
Asian Paints	Buy	SP	M
Dabur	Buy	SO	M
Colgate Palmolive India	Hold	SU	M
United Spirits	Buy	SO	H

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

Naresh Kothari	Co-Head Institutional Equities	naresh.kothari@edelcap.com	+91 22 2286 4246
Vikas Khemani	Co-Head Institutional Equities	vikas.khemani@edelcap.com	+91 22 2286 4206
Nischal Maheshwari	Head Research	nischal.maheshwari@edelcap.com	+91 22 6623 3411

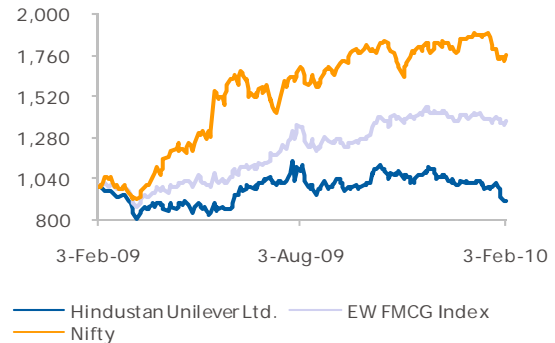
Coverage group(s) of stocks by primary analyst(s): FMCG

Asian Paints, Colgate, Dabur, Godrej Consumer, Hindustan Lever, ITC, Marico, Nestle and United Spirits

Hindustan Unilever



EW Indices



Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	95	54	11	162
* 2 stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	104	46	12	

Recent Research

Date	Company	Title	Price (INR)	Recoms
29-Jan-10	Colgate Palmolive	Good quarter; yet again	679	Hold
		<i>Result Update</i>		
28-Jan-10	Marico	Strong volume and international business growth;	98	Buy
		<i>Result Update</i>		
28-Jan-10	Dabur	Strong YTD growth; Increasing estimates;	158	Buy
		<i>Result Update</i>		

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